

Message Text

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16

ACTION EA-14

INFO OCT-01 ISO-00 EUR-25 AID-20 CIAE-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 DRC-01 IO-14 L-03 /173 W
----- 129847

P R 160612Z JUL 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC PRIORITY 2362

USDOC WASHDC

AMCONGEN HONG KONG

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E.O. 11652: N/A

TAGS: EFIN, TW

SUBJECT: EXIM BANK LENDING POLICIES

STATE FOR DEP SEC INGERSOLL

PASS EXIM BANK FOR CASEY

COMMERCE FOR UNDER SEC TABOR

HONG KONG FOR RAND

REF: STATE 149770

1. SUMMARY: I AM CONCERNED THAT RECENT CHANGES IN
EXIM BANK POLICIES AND PROCEDURES WILL DAMAGE OUR BEST
EFFORTS TO PROMOTE US SALES AND SERVICES TO ROC. I
RECOGNIZE THAT SOME DAMAGE IS UNAVOIDABLE BECAUSE OF
ENFORCED STRETCH OUT IN BANK'S LIMITED RESOURCES.
HOWEVER, EX POST FACTO MODIFICATION OF PRELIMINARY
COMMITMENTS (P/C) DOES NOT SEEM NECESSARY, DAMAGES
OUR CREDIBILITY, AND IMPROVES POSITION OF NON-US
SUPPLIERS. SYSTEM OF P/C'S HAS BEEN MOST ATTRACTIVE
FEATURE OF EXIM FINANCING AND IF IT IS SEEN TO BE SUBJECT
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TO ARBITRARY CHANGE, OUR ABILITY TO GET BUSINESS FOR US

WILL BE SEVERELY HAMPERED. END SUMMARY.

2. I AM MOST CONCERNED ABOUT IMPACT OF RECENT CHANGES IN EXIM BANK LENDING POLICY AND PROCEDURES. ALTHOUGH I APPRECIATE NEED TO STRETCH EXIM BANK'S LIMITED REMAINING RESOURCES, I TRUST THAT WE WILL NOT SOFT PEDAL -- IN CONGRESS OR ELSEWHERE -- ADVERSE CONSEQUENCES ON OUR ABILITY TO COMPETE WITH JAPANESE AND EUROPEAN SUPPLIERS. I WOULD APPRECIATE GUIDANCE FOR USE IN RESPONDING TO EXPRESSIONS OF CONCERN WE ARE RECEIVING FROM GROC AGENCIES, US SUPPLIERS OF EQUIPMENT AND SERVICES, AND BANKING COMMUNITY. MINISTERS K.T. LI AND Y.S. SUN WILL MOST LIKELY APPROACH US, AND CCK HIMSELF MAY ALSO BE QUESTIONING ME IN DUE COURSE.

3. MY IMMEDIATE CONCERN IS NOT WITH FORWARD IMPACT OF STRETCH OUT, BUT WITH EX POST FACTO ASPECT RELATING TO PRELIMINARY COMMITMENTS (P/C) GIVEN TO TAIWAN RAILWAY ADMINISTRATION (TRA) AND CHINA STEEL CORPORATION (CSC). I REALIZE WE HAVE GROUNDS FOR TAKING POSITION THAT

THESE COMMITMENTS ARE NON-BINDING FROM STRICTLY LEGAL POINT OF VIEW, BUT I CANNOT EMPHASIZE TOO STRONGLY DAMAGE I THINK WE WILL DO IF WE TAKE ADVANTAGE OF CHANGES SINCE P/C'S WERE SIGNED TO MODIFY ORIGINAL CREDIT PROPOSALS MAKING THEM LESS ATTRACTIVE TO GROC AND PRIVATE FIRMS INVOLVED. THIS EX POST FACTO FEATURE SEEMS ESPECIALLY SHORT-SIGHTED GIVEN RELATIVELY SMALL SAVINGS INVOLVED, DAMAGE TO OUR CREDIBILITY, AND POLITICAL CAPITAL EXPENDED BY USG HERE AND IN WASHINGTON, ESPECIALLY IN CASE OF TRA, TO SWING BALANCE TO US RATHER THAN UK.

4. JUI FAN, DEPUTY MANAGING DIRECTOR OF TRA, CALLED AT EMBASSY JULY 15 TO EXPRESS CONCERN AT NEWS THAT EXIM BANK DOES NOT BELIEVE THAT TERMS EXPRESSED IN P/C CAN ANY LONGER BE REGARDED AS VALID, PARTICULARLY SINCE LOAN APPLICATION WAS SUBMITTED PRIOR TO THE EXPIRATION OF P/C. IN TRA'S OPINION, EXIM MISSES THE POINT IN ITS COMMENT THAT LOAN APPLICATION WAS "NOT COMPLETE" AND THAT P/C WAS BASED ON TRA PURCHASING GREATER VALUE LIMITED OFFICIAL USE

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OF EQUIPMENT IN US THAN IT NOW PROPOSES. IT SHOULD BE RECALLED THAT TRA ORIGINALLY DID NOT PROPOSE TO PURCHASE ANY REPEAT ANY US EQUIPMENT. I TOOK STRONG PERSONAL APPEALS FROM MY PREDECESSOR TO CABINET AND SECRETARY DENT'S APPEAL TO ROC AMBASSADOR TO SWING THE DEAL OUR WAY.

5. WHILE MORE COMPLIANT THAN TRA, WILLIAM CHAO,

PRESIDENT OF CSC, IS EQUALLY WORRIED OVER STATUS OF CSC'S LOAN APPLICATION. ACCORDING TO CHAO, CSC HAS AGREED TO ACCEPT EXIM REVISIONS REQUIRING HIGHER INTEREST RATE AND LARGER DOWN PAYMENT AND HAS ANSWERED FULLY ALL REQUESTS FOR ADDITIONAL DATA FROM EXIM BANK. ON BASIS OF P/C 74-2405, CSC HAS PLACED LARGE ORDERS FOR US EQUIPMENT AND HAS MADE ARRANGEMENTS WITH BANK OF AMERICA AND PEFCO FOR "OTHER CREDITS". CHAO STATES THAT BECAUSE OF LONG LEAD-TIME INVOLVED, CSC MUST SOON PLACE ORDERS FOR ADDITIONAL EQUIPMENT IF STEEL MILL IS TO COME ON STREAM IN 1977. CSC HAS ALREADY ORDERED BILLET MILL AND BOF PLANT FROM DAWASAKI HEAVY INDUSTRIES, BECAUSE OF INABILITY US COMPANIES TO MEET REQUESTED DELIVERY DATES, AND JAPANESE AND GERMAN COMPANIES HAVE MADE ATTRACTIVE OFFERS FOR OTHER EQUIPMENT. (TERMS BEING OFFERED BY KAWASAKI ARE 10 PERCENT DOWN PAYMENT, 5 PERCENT AGAINST SHIPMENT, AND 85 PERCENT IN 20 SEMI-ANNUAL INSTALLMENTS BEGINNING 6 MONTHS AFTER SHIPMENT. INTEREST IS 7.75 PERCENT PER ANNUM. COPIES OF LETTERS OF INTENT WITH KAWASAKI ARE BEING POUCHED (EA/ROC).

6. MY BASIC CONCERN IS, OF COURSE, ADOPTION BY EXIM BANK OF POLICIES AND PROCEDURES WHICH WILL UNDERCUT OUR ABILITY TO COMPETE SUCCESSFULLY FOR SALES OF US GOODS AND SERVICES IN ROC. EMBASSY HAS BEEN EXERTING MAXIMUM EFFORTS ON BEHALF OF US SUPPLIERS, PARTICULARLY IN CONNECTION WITH "BIG TICKET" ITEMS AND GROC MAJOR PROJECTS. THESE EFFORTS COULD BE LARGELY NEGATED IF EXIM BANK FINANCING IS NO LONGER AVAILABLE OR IS AVAILABLE ON TERMS AND CONDITIONS LESS FAVORABLE THAN THOSE OFFERED BY OTHER COUNTRIES. OUR POSITION WILL UNDOUBTEDLY ALSO BE DAMAGED GENERALLY BY OUR SETTING ASIDE LIMITED OFFICIAL USE

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OUR PRELIMINARY COMMITMENTS ON WHAT WILL BE REGARDED AS ARBITRARY GROUNDS.
UNGER

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Message Attributes

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